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Railroad Valuation. By HOMER BEWS VANDERBLUE. Hart, Schaffner & Marx Prize Essays, XXIII. (Boston: Houghton Mifflin Company. 1917. Pp. xiii, 222. \$1.50.)

There seems to be no end of valuation literature. Professor Vanderblue's book, however, is a worthy contribution. Its greatest usefulness lies in the collection and classification of the many confusing theories, decisions, and opinions that have accumulated in the comparatively short time since rate reasonableness and fair value were first linked together.

Professor Vanderblue treats the subject both as "a study in the economics of the distribution of income" and "in the economics of railroads." He does not, however, define either of these terms. Moreover, the frequent use of cant economic phrases, even with a view to stamping the work as scientific, limits the utility of the volume. A practical problem is not brought nearer to solution by frequent abbreviation of the argument through the use of the terminology peculiar to the field of the science.

It is not essential for the purpose of this review to consider in detail the author's discussion of all the topics of valuation. His historical summary of the development of the legal doctrines of "fair value" is very good, but nothing is offered which might clear up the muddle. Certainly it is difficult to harmonize economic theories and legal *dicta*. The suggestion to substitute "unimpaired investment" for "cost-of-reproduction" as a basis of fair value is like calling six of one, half a dozen of another. Moreover, the term "unimpaired investment" may be interpreted variously. It may refer to the upkeep and maintenance of the physical elements of the property. According to this view it does not differ essentially from the idea of reproduction cost, and the substitution of a pet economic phrase for a term that has already received judicial sanction merely intensifies the curse of Babel. The multiplication of definitions is the most obstructive feature in the solution of valuation problems.

A more common interpretation of unimpaired investment relates to earning power. Investment cannot be considered separately from earning power. It has no direct or necessary reference to physical property. To borrow an economic expression, investment represents the application of a fund to productive use. It is the force which (in the language of Professor Irving Fisher) determines the flow of the "capital stream." A railroad may maintain its physical corpus in a brand new condition, but if it ceases to

earn revenue, the investment is "impaired" and perhaps eliminated. Thus the "capital goods" may remain visible and intact, but the "capital stream" has evaporated.

Professor Vanderblue's discussion of the intangible elements of fair value is confined largely to a review and digest of judicial opinions and economic theories. Very little is added which might assist in the application of the dollar mark to intangibles, the author admitting that "no usable solution appears possible" and that "the conjectural nature of the valuation of tangible assets is multiplied many fold" in an appraisal of "going value" (p. 187). From the economic viewpoint, he criticises the prevailing distinction between "good-will" and "going value." The courts have come to interpret "going value" as the accumulations of deficiencies in a "fair return" arising from the necessity of creating and developing business. This is the so-called "Wisconsin method" of gauging "going value." It is really the application of the economic doctrine of sacrifice or the cost basis of value. Its underlying principle is the same as that which distinguishes investment expenditure from revenue expenditure. The distinction arises from the natural laws of trade, and volumes of economic theorizing cannot alter these actual conditions of facts.

Economic principles, in the long run, tend to harmonize with business practice and legal doctrines; otherwise, the science would become entirely metaphysical. Accordingly, the author, in trying to solve a practical business problem, such as rate regulation, may be as badly off as a blind man in a dark room looking for a black cat that is not there. Certainly, in the actual work of valuation there is much groping in the dark as to correct economic doctrines. The best evidence of this is Mr. Vanderblue's numerous citations of diverse opinions and theories. Conflicting ideas are expressed by the economists, the engineers, and the lawyers. The experts in the field are continually quarrelling among themselves and with each other. Many of the arguments presented at the formal hearings before the Interstate Commerce Commission (which are fully reviewed throughout the pages of Mr. Vanderblue's book) resemble scholastic quibbles.

Railroad valuation is not the most pressing problem (as stated by the author's publishers) but it is undoubtedly the most vexatious problem before the Interstate Commerce Commission. Mr. Vanderblue's scientific study is a masterful resumé of varied, un-

digested, unassimilated, and discordant views and data, but it does not clear the atmosphere nor lift the smoke of battle.

A. M. SAKOLSKI.

Valuation, Depreciation and the Rate-Base. By CARL EWALD GRUNSKY and CARL EWALD GRUNSKY, JR. (New York: John Wiley & Sons, Inc. 1917. Pp. viii, 387. \$4.00.)

Public Utility Rates. A Discussion of the Principles and Practice Underlying Charges for Water, Gas, Electricity, Communication and Transportation Services. By HARRY BARKER. (New York: McGraw-Hill Book Company, Ltd. 1917. Pp. xiv, 387. \$4.00.)

These two books appeared almost simultaneously, both by engineers with extensive practical experience with rate control. Their chief significance is that they bring out the chaotic conditions of regulation, the uncertainties and indefinitenesses of procedure after a generation of discussion of principles and policies, and after fifteen years of attempts at regulation. Nothing is more needed, both for the protection of the public and the welfare of the business, than a definite and sensible policy, which actually establishes control of return on investment, states the terms at which investors place their capital in the public service, and provides for desirable extension of service. Both books should contribute substantially toward the realization of such a policy.

The Grunskys' book is less a comprehensive and systematic discussion of valuation and rate making in accordance with present procedure than the presentation of particular views based on personal experience and study; and many suggestions that deserve special consideration are offered. There is commendable omission of numerous elementary commonplaces, but unfortunately particular points are uselessly repeated over and over and, in general, material, much of it irrelevant, is presented in a very disorganized fashion.

The plan may be briefly summarized as follows: Take as the rate base "the reasonable and proper investment or original cost new, including a proper allowance for the cost of establishing and developing the business" (p. 30); make no deduction for depreciation, nor an allowance for appreciation, and, in some cases at least, make a deduction for public contribution to the investment; then, in fixing rates, first allow just interest on the investment, then add to the rate of return for the volume of business